BAY MILLS
LIMITED

ANNUAL REPORT
for the year ended July 31, 1969

INDUSTRIES USING OUR PRODUCTS:

Aircraft
Aluminum
Boat
Building Construction
Carpet
Cement
Chemical
Curtain
Electrical
Hardware
Highway Construction
Mining and Smelting
Paper
Pipeline Construction
Production Tooling
Reinforced Plastics
Rubber
Tent Manufacturing
Toy
Window Manufacturing

HEAD OFFICE		Midland, Ontario
DIRECTORS		Eric H. Cerny, *Montreal* Steven F. Cerny, *Midland* Gustave W. Fewks, *Montreal* Robbert Hartog, *Midland* Donald A. Jewitt, *Toronto* Derek H. Mather, *Montreal* Sydney J. Nicholls, *Midland*
OFFICERS	*Chairman of the Board*	Eric H. Cerny
	President	Steven F. Cerny
	Vice-President	Gustave W. Fewks
	Secretary-Treasurer	Sydney J. Nicholls
EXECUTIVE	*General Manager*	Steven F. Cerny, B.Sc.
	General Sales Manager	Sydney J. Nicholls, B.Eng.
	Controller	Frank G. Spence, C.A.
SUBSIDIARY COMPANY		Filterfab Limited
AUDITORS		Hutchins, Mullin & Blair Chartered Accountants, Toronto
LEGAL COUNSEL		Salter, Reilly, Jamieson & Apple Toronto
TRANSFER AGENT		The Royal Trust Company Toronto
BANKERS		The Toronto-Dominion Bank
ANNUAL MEETING		King Edward Hotel, Toronto November 4, 1969

REPORT TO THE SHAREHOLDERS

Net earnings for the year ending July 31st, 1969 were $147,112 compared to $176,124 for the previous year. After allowing for the dividends on our Preferred shares, net earnings for the last fiscal year amounted to 52.5c. per Common share compared to 66.3c. for the preceding year. Earnings before depreciation, interest and taxes were $635,406 compared to $578,435.

Working capital at July 31st was $1,062,313 compared to $828,036 on the same date a year ago.

Sales increased by 17.8% over the previous year. Our current forecast calls for a similar increase in the current year. We expect to introduce several new products to markets that we have not previously served.

Your management feels that considerable progress has been made this year. Our obsolete facility in St. Catharines was phased out and replaced by a modern, well-equipped plant addition in Midland. The expenses incurred in moving this operation from St. Catharines to Midland, together with start-up expenses, have been written off. Capacity has been increased. Development expenses incurred in the non-woven process acquired by your Company have been written off. All of these changes are expected to have a growing effect on sales and earnings.

The financing of the new plant addition included an Area Development Grant. A grant of $284,254 was approved and approximately 60% of this amount has been received with 20% of the balance to be received this year and the remainder in 1970. To be eligible your Company must conform to a number of regulations for three years from December 1st, 1968. Your management foresees no difficulty in meeting the requirements.

During the year a reduction in protective tariffs took place as the result of the Government's decision to accelerate the tariff reductions agreed to in the "Kennedy Round". Raw material costs increased. These two events, together with increased staff and other costs, tended to reduce expected earnings. To off-set these our selling prices were increased selectively on those products showing a low return. However, in one of our markets, a depressed price situation in the U.S.A., together with the lower tariff, prevented a price increase and the extra operating costs had to be absorbed.

Our subsidiary, Filterfab Limited, has now been in operation for two years. Late this fiscal year, it started contributing to earnings. Your management and Mr. Harry Frost, President of Filterfab Ltd., are both optimistic that its operations will have a growing effect on earnings. Filterfab is now a major supplier of dust collection filter tubes and bags to a number of Canada's largest mining and chemical complexes. With the growing emphasis on elimination of air pollution, Filterfab's business is expected to grow substantially faster than the general economy.

During the year development of our new method of making non-woven fabrics resulted in improved productivity and the establishment of new markets for these products. Substantial growth in this field is expected.

The outlook for the coming year depends on the general level of activity in the nation's economy as well as our ability to absorb rising material, services, and wage costs through increased productivity.

Your Board and Management wish to extend their thanks to our suppliers and customers for their support, and to our employees whose extra efforts carried us through a major move with a minimum of trouble.

Respectfully submitted,
On Behalf of the Board

Steven Cerny

S. F. CERNY
President

Midland, Ontario
September 25, 1969

BAY MILLS LIMITED

and wholly owned subsidiary

Statement of Earnings
Year Ended July 31, 1969

	1969	1968
EARNINGS (before undernoted items)	$ 635,406	$578,435
Depreciation	235,471	165,171
Interest on funded debt	92,142	41,140
Taxes on income	154,816	196,000
Non recurring items:		
Moving expenses	24,651	—
Financing expenses	17,603	—
Profit on sale of building	(36,389)	—
NET EARNINGS	147,112	176,124

Statement of Source and Application of Funds
Year Ended July 31, 1969

	1969	1968
SOURCE OF FUNDS		
Net earnings	147,112	176,124
Provision for depreciation	235,471	165,171
Less profit on sale of building included above	(36,389)	—
Total from operations	346,194	341,295
Increase in deferred tax credit	172,000	153,000
First mortgage bonds, series B	400,000	—
Notes payable	250,000	150,000
Issue of 1,000 common shares	4,500	—
Contributed surplus-area development grant	284,254	—
Less non current portion	(56,851)	—
Decrease (increase) on other assets	64,808	(67,329)
Sale of building	65,000	—
	1,529,905	576,966
APPLICATION OF FUNDS		
Net addition to building, machinery and equipment	1,121,778	298,127
Decrease first mortgage bonds	35,000	35,000
Dividends on preferred shares	131,100	27,600
Redemption of preferred shares (par value $10,000)	7,750	—
Prior year adjustments	—	8,207
	1,295,628	368,934
NET CURRENT ASSETS		
NET INCREASE FOR YEAR	234,277	208,032
Beginning of year	828,036	620,004
End of year	1,062,313	828,036

ASSETS

	1969	1968
CURRENT ASSETS		
Cash	$ 475	$ 425
Accounts receivable, trade, less allowance for doubtful accounts	1,055,989	978,653
Inventories, at lower of cost and replacement value	1,190,221	824,831
Refundable taxes on income	35,400	—
Special refundable tax	10,934	—
Prepaid expenses	12,030	11,141
Area development grant receivable, current portion	56,851	—
Total current assets	2,361,900	1,815,050
FIXED ASSETS (at cost)		
Buildings	1,457,093	944,762
Machinery and equipment	2,088,222	1,402,648
Furniture and fixtures	53,943	37,873
	3,599,258	2,385,283
Less accumulated depreciation	1,280,013	1,076,616
	2,319,245	1,308,667
Land	24,353	25,103
Construction in progress	—	152,132
Total fixed assets – net	2,343,598	1,485,902
OTHER ASSETS		
Deposits	8,565	62,658
Special refundable tax	—	10,715
Area development grant receivable	56,851	—
Total other assets	65,416	73,373
	4,770,914	3,374,325

APPROVED ON BEHALF OF THE BOARD

Steven Cerny S. F. Cerny, *Director*

Sydney J. Nicholls S. J. Nicholls, *Director*

The accompanying notes form an integral part of the financial statements

CONSOLIDATED BALANCE SHEET, JULY 31, 1969

LIABILITIES

	1969	1968
CURRENT LIABILITIES		
Due to bank, secured	$ 523,991	$ 278,074
Accounts payable and accrued liabilities	740,596	540,831
Accounts payable equipment, secured	—	67,500
Current portion of first mortgage bonds	35,000	35,000
Taxes on income, estimated	—	65,609
Total current liabilities	1,299,587	987,014
FUNDED INDEBTEDNESS		
First mortgage bonds series A (Note 1)	560,000	595,000
First mortgage bonds series B (Note 1)	400,000	—
Note payable due December 31, 1971, 8¼% variable	150,000	150,000
Note payable due July 31, 1978, 7%	250,000	—
	2,659,587	1,732,014
DEFERRED TAX CREDIT (Note 3)	430,000	258,000

SHAREHOLDERS' EQUITY

	1969	1968
CAPITAL STOCK (Note 5)		
Authorized:		
149,000 preferred shares, par value $10 each		
500,000 common shares, no par value		
Issued:		
Preferred – 59,000 6% cumulative redeemable, participating first preferred shares Series A	590,000	600,000
Common – 206,985 shares	229,900	225,400
	819,900	825,400
SURPLUS		
Earned surplus (Note 2)	566,222	554,666
Reserve for redemption of preferred shares	951	4,245
Capital surplus	10,000	—
Contributed surplus (Note 4)	284,254	—
	861,427	558,911
Shareholders' equity	1,681,327	1,384,311
	4,770,914	3,374,325

NOTES TO FINANCIAL STATEMENTS

NOTE 1

First Mortgage Sinking Fund Bonds "Series A" and "Series B" were created under a Trust Deed Agreement dated September 1, 1964 and a Supplemental Deed of Trust and Mortgage dated September 1, 1968. The Series A Bonds mature September 1, 1984 and are repayable in principal amounts of $35,000 per annum. The Series B Bonds mature September 1, 1988 and are repayable in principal amounts of $20,000 per annum commencing September 1, 1970. Bonds of both series are redeemable at the option of the company at any time at the prices and subject to the terms and conditions contained in the Trust Deed. Covenants for the Series A and Series B bonds restrict the payment of cash dividends in the future, if after giving effect thereto the consolidated net current assets would be reduced below $750,000. The consolidated net current assets at July 31, 1969 exceeded this amount.

NOTE 2

Under the terms of the preferred shares Series A a participating dividend equal in amount to 5% of each full $12,000 in excess of $90,000 of consolidated net earnings must be paid. This dividend, which will total $2,360, must be paid on December 15, 1969.

NOTE 3

The deferred tax credit represents estimated tax deferred by claiming approximately $805,000 of capital cost allowance in excess of that recorded in the accounts.

NOTE 4

The area development grant received and receivable is subject to fulfilment by the company of certain conditions over the next three years which it is expected that the company will meet.

NOTE 5

1,000 preferred shares were redeemed during the year.

Outstanding Common Share Warrants and Options	*Number of Shares*
Optioned under employment contract at $4.50 per share (1,000 shares were issued during the year for cash under this contract)	6,500
Warrants with "Series A" Bonds, $6.00 per share to September 1, 1969, $7.00 per share to 1974	21,000
Warrants with "Series B" Bonds, $5.00 per share to 1974, $6.00 per share to 1979	12,000
Warrants with 7% note due July 31, 1978, $4.50 per share to 1973, $5.50 per share to 1978	50,000
	89,500

NOTE 6

Directors' fees of $2000 and remuneration to salaried directors amounted to $110,343.

NOTE 7

Gross operating revenue. Sales for the period August 1, 1968 to July 31, 1969 increased by 17.8% from the corresponding previous period.

AUDITORS' REPORT

To the Shareholders,
Bay Mills Limited.

We have examined the consolidated balance sheet of BAY MILLS LIMITED and wholly owned subsidiary as at July 31, 1969, and the consolidated statements of earnings, surplus, and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the aforementioned financial statements present fairly the consolidated financial position of the companies as at July 31, 1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

September 5, 1969

HUTCHINS, MULLIN & BLAIR
Chartered Accountants

BAY MILLS LIMITED
and wholly owned subsidiary

Statement of Surplus Accounts
Year Ended July 31, 1969

		1969
EARNED SURPLUS		
Balance August 1, 1968		$554,666
Add:		
Consolidated net profit for the year		147,112
		701,778
Deduct:		
Dividends paid on preferred shares	$131,100	
Appropriation to reserve for redemption of preferred shares	4,456	135,556
Balance July 31, 1969		566,222
RESERVE FOR REDEMPTION OF PREFERRED SHARES		
Balance August 1, 1968		4,245
Add:		
Amount appropriated from earned surplus		4,456
		8,701
Deduct:		
Amount arising from redemption of 1,000 preferred shares		7,750
Balance July 31, 1969		951
CAPITAL SURPLUS		
Balance August 1, 1968		—
Arising pursuant to the Canada Corporations Act as a result of the redemption of 1,000 preferred shares		10,000
Balance July 31, 1969		10,000
CONTRIBUTED SURPLUS		
Balance August 1, 1968		—
Area development grant received or receivable on behalf of capital expansion program		284,254
Balance July 31, 1969		284,254

OPERATING RESULTS

	1969	1968	1967
Earnings	$ 635,406	$ 578,435	$ 422,940
Provision for Depreciation	235,471	165,171	171,208
Interest	92,142	41,140	43,415
Provision for Taxes on Income	154,816	196,000	105,000
Non Recurring Items	5,865	—	—
Net Earnings	147,112	176,124	103,317
% of Shareholders' Equity at Beginning of Year	10.6%	14.2%	9.1%
Per Common Share	52.5c.	66.3c.	32.4c.

BALANCE SHEET DATA

	1969	1968	1967
Net Current Assets	1,062,313	$ 828,036	$ 620,004
Fixed Assets less Depreciation	2,343,598	1,485,902	1,352,946
Other Assets	65,416	73,373	6,044
Net Tangible Assets	3,471,327	2,387,311	1,978,994
Funded Debt	960,000	595,000	630,000
Other Deferred Financing	830,000 †	408,000 †	105,000 †
Shareholders' Equity	1,681,327	1,384,311	1,243,994

FINANCIAL RATIOS

	1969	1968	1967
Current Assets to Current Liabilities	1.82	1.84	1.60
Net Tangible Assets to Funded Indebtedness	3.62	4.01	3.14
Shareholders' Equity to Funded Indebtedness	1.75	2.33	1.97

† Includes deferred tax credit

* Prior to expansion in 1965

COMPARATIVE TEN YEAR RECORD

1966	1965	1964	1963	1962	1961	1960
243,744	$ 4,042	$ 258,745	$ 280,080	$ 213,220	$ 136,814	$ 87,435
170,560	132,967	75,248	57,166	55,888	38,292	43,906
45,317	31,266	6,374	16,790	15,465	10,890	8,984
—	(69,107)	60,308	82,000	47,090	35,273	11,726
—	—	—	—	—	—	—
27,867	(91,084)	116,815	124,124	94,777	52,359	22,819
2.5%	(7.3%)	22.2%	30.0%	30.2%	19.7%	10.1%
(3.9c.)	(61.7c.)	39.2c.	—	—	—	—
419,579	$ 370,598	$ 601,685	$ 406,244	$ 324,896	$ 269,078	$ 237,985
1,382,343	1,427,739	803,392	313,812	305,383	180,926	210,412
3,755	14,473	11,425	15,882	8,370	6,981	6,892
1,805,677	1,812,810	1,416,502	735,938	638,649	456,985	455,289
665,000	700,000	170,000	210,410	234,719	143,331	189,495
—	—	—	—	—	—	—
1,140,677	1,112,810	1,246,502	525,528	403,930	313,654	265,794
1.35	1.32	2.25	2.04	2.06	2.16	1.84
2.71	2.59	8.33 *	3.49	2.72	3.19	2.40
1.72	1.59	7.33 *	2.50	1.72	2.19	1.40

b
m

File

BAY MILLS LIMITED

MIDLAND

ONTARIO

INTERIM

REPORT

Three Months Ended October 31, 1969

BAY MILLS LIMITED

and wholly owned subsidiary

(UNAUDITED)	Three months ended October 31, 1969	October 31, 1968
STATEMENT OF EARNINGS		
EARNINGS (before undernoted items)	$100,700	$101,600
Depreciation	68,800	35,700
Interest on funded debt	24,600	17,600
Taxes on income	200	14,400
Finance and moving expense	—	15,800
NET EARNINGS	7,100	18,100

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

SOURCE OF FUNDS		
Net earnings	7,100	18,100
Depreciation	68,800	35,700
		53,800
Deferreed taxes on income	—	14,400
Notes issued	—	250,000
First mortgage bonds	—	400,000
Sale of building	—	65,000
	75,900	783,200
APPLICATION OF FUNDS		
Net additions to fixed assets	29,700	655,200
Decrease in first mortgage bonds	55,000	35,000
Dividends on preferred stock	8,800	100,500
Increase (decrease) in other assets	(1,200)	(57,900)
	92,300	732,800
NET CURRENT ASSETS		
Net Increase (decrease)	(16,400)	50,400
July 31	1,062,300	828,000
October 31	$1,045,900	$878,400